B U I L D I N G B C

Homeowner
Protection Office

2000/2001
Annual Report

improve the quality of residential construction

strengthen consumer protection

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COLUMBIA

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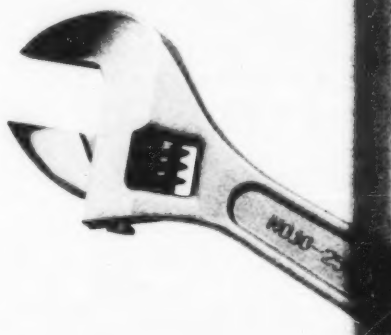

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June 11, 2001

The Honourable Garde B. Gardom
Lieutenant-Governor of the Province of British Columbia

It is my pleasure to table the Annual Report for the Homeowner Protection Office for the last full fiscal year of the previous administration ending March 31, 2001, fulfilling my obligation as the current Minister responsible.

Sincerely,

George Abbott

George Abbott
Minister of Community, Aboriginal and Women's Services

Homeowner Protection Office

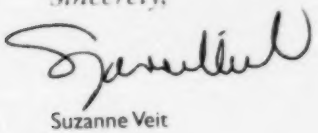
June 11, 2001

Honourable George Abbott
Minister of Community, Aboriginal and Women's Services

Minister,

As the Chairperson of the Homeowner Protection Office, it is an honour to present to you the annual report for the year ending March 31, 2001.

Sincerely,



Suzanne Veit
Chairperson

Report from the CEO

The Homeowner Protection Office (HPO) has made commendable progress in its mandate areas during its two and one-half years of operation. I became CEO of the HPO in January 2001 and would like to applaud Shayne Ramsay, the HPO's first CEO, for the office's remarkable accomplishments to date.

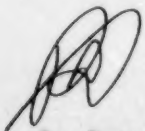
The HPO has successfully created and administered financial assistance programs for owners of leaky homes. By the annual report date, $159 million in no-interest repair loans and $2.2 million in PST Relief Grants on completed building envelope renovations were approved. Through its financial assistance and consumer information programs, the office has been involved with 761 buildings representing 45,660 homes in the coastal climate zone. Given the Barrett Report estimate of 50,000 homes suffering from building envelope failure, the office has already reached the majority of the homeowners included in this estimate which now appears low.

Considerable steps have also been taken to increase consumer protection for homebuyers and homeowners. This year, regulations for licensing and mandatory, third-party home warranty insurance on building envelope renovations were brought into force. Similar in many ways to the consumer protection regulations that were implemented for new home construction in 1999, these new requirements ensure that contractors who perform building envelope renovations meet minimum qualifications and that a warranty provided by an insurance company accompanies the repair.

Through its research and education initiatives, the HPO continued to work toward bringing about an increase in the quality of residential construction in British Columbia over the long-term. Partnerships that were developed with the industry allowed the HPO to leverage its research and education contributions. As a result, efforts to develop solutions and improvements in residential construction in the province are more focused in the industry.

The office's consumer information programs have continued to assist both owners of leaky homes with the process of repairing their buildings as well as provide useful information for homebuyers which allows them to make more informed purchasing decisions.

The Homeowner Protection Office was successful in operating its programs on a break-even basis. Given a staff size of 31, the office has made great progress in its vision of leading an improvement in the quality of residential construction and increased homeowner protection in British Columbia.



Russ Pratt
Chief Executive Officer

CORPORATE OVERVIEW

The Homeowner Protection Office (HPO) is a provincial Crown corporation formed in response to the recommendations of the June 1998 Barrett Commission report on the quality of condominium construction in British Columbia. The report prompted the creation of the *Homeowner Protection Act* (*Act*) which was brought into force in July 1998. The *Act* provided for the formation of the Homeowner Protection Office which was established in October 1998.

The mandate of the *Homeowner Protection Act* is to strengthen consumer protection for homebuyers and bring about an increase in the quality of residential construction in B.C.

The Homeowner Protection Office's **vision** is to be a responsible Crown corporation leading an improvement in the quality of residential construction and an increase in homeowner protection in British Columbia.

Our **mission** is to restore confidence in British Columbia's residential construction industry through our program areas which include:

- Administering the residential builder and building envelope renovator licensing system
- Establishing the framework for and monitoring the mandatory, third-party home warranty insurance system
- Maintaining a research and education function to benefit the residential construction industry, homebuyers and homeowners, and
- Administering a no-interest repair loan and PST Relief Grant program for owners of leaky homes.

Our **values** are based on our commitment to integrity, fairness, responsiveness, accountability and teamwork.

The HPO is self-funded primarily from builder licensing fees. The research and education component of the office is funded by both builder licensing fees and contributions from sector organizations. As of October 20, 2000, the Government of Canada, through CMHC, provides a contribution equal to fifty percent of the Homeowner's Reconstruction Loan Program expenditures net of interest revenue. This contribution will not exceed $27.7 million. The total expected expenditure for the no-interest repair loan program is $108 million. The HPO administers the PST Relief Grant on behalf of the provincial government on a cost recovery basis. The funds borrowed for operations and the Reconstruction Loan Program will be repaid to the province over an expected 10-year period.

The Ministry of Social Development and Economic Security supports the Homeowner Protection Office in areas such as policy analysis as well as legislation and regulation development.

Organization Chart

AS OF MARCH 31, 2001

Minister of Social Development and Economic Security

Board of Directors
Suzanne Veit, Deputy Minister, Ministry of Municipal Affairs (Chair)
Shayne Ramsay, CEO, BC Housing
and Jim O'Dea, Chair, BC Housing

Chief Executive Officer
Russ Pratt

Provincial Advisory Council*

Director, Licensing and Registrar
Bob Maling

Chief Operating Officer
Dan Maxwell

Director, Research and Education
Vacant

Key Responsibilities of HPO Officers

Director, Licensing and Registrar

- license residential builders and building envelope renovators
- maintain registry of licensed builders
- ensure compliance with licensing standards and regulations
- collect license fees

Chief Operating Officer

- administration of HPO
- manage the Reconstruction Fund and PST Relief Grant
- financial management of HPO including annual financial statements
- Board administration

Director, Research and Education

- support building science research
- support consumer and industry education
- advise government and City of Vancouver on amendments to building code
- support the establishment of guidelines for "best practices" for building

The Provincial Advisory Council on Homeowner Protection provides policy advice to the CEO relating to the *Homeowner Protection Act* and the operation of the HPO.

Representatives of the Provincial Advisory Council on Homeowner Protection

Architectural Institute of B.C.

Association of Professional Engineers and Geoscientists

B.C. Construction Association

B.C. Federation of Labour – 2 representatives
International Union of Painters and Allied Trades
United Association of Plumbers and Pipefitters

Building Officials Association of B.C.

Canadian Home Builders' Association of B.C.

City of Vancouver

Condominium Home Owners' Association – 2 representatives

Home Warranty Insurance Company

Independent Contractors and Businesses Association of B.C.

Union of British Columbia Municipalities

Urban Development Institute

Bob Maling,
Director of Licensing and
Registrar

RESIDENTIAL BUILDER LICENSING AND HOME WARRANTY INSURANCE

Update on New Home Construction

On July 1, 1999 regulations for new home construction were introduced to better protect homebuyers. Residential builders must now be licensed by the Homeowner Protection Office (HPO) and arrange for home warranty insurance in order to get a building permit or commence construction in geographic areas where building permits are not required.

Home warranty insurance can only be provided by insurance companies that are approved by the Financial Institutions Commission (FICom) and meet the requirements of the *Homeowner Protection Act*. Minimum warranty insurance coverage is set by government and includes two years on labour and materials, five years on the building envelope and ten years on structure (2-5-10).

As of the annual report date, there were 2,298 licensed residential builders in the province. A registry of licensed builders is available on the HPO Web site. Since July 1, 1999, building permits for 16,832 new homes have been applied for under the new legislation.

Compliance Efforts Increased

Regulations for new home construction, which came into force on July 1, 1999, exempts owner-builders from the licensing and mandatory home warranty insurance requirements. **Although the regulations stipulate that only individuals building a detached dwelling unit for their own personal use are eligible for the exemption once in any 18-month period, land owners and unscrupulous builders are abusing the system to avoid the licensing and warranty requirements put in place to protect consumers.**

Since these regulations were passed, 3,786 building permits involving owner-builder exemptions have been issued. This represents about 37% of all detached dwelling building permits. The HPO's monitoring and enforcement activities indicate that an estimated 35% of these applications for owner-builder exemptions do not comply with the *Homeowner Protection Act*. Abuse of the owner-builder exemption results in inadequate consumer protection (homes are not built by licensed builders and do not have home warranty insurance) and create unfair competition for licensed builders who play by the rules.

The Homeowner Protection Office took steps to decrease this abuse. Four full-time compliance officers were added to the existing licensing and enforcement team at the HPO. On-site visits to construction sites and better monitoring of the system has helped increase compliance to the consumer protection regulations. An HPO review of all requests for owner-builder exemptions prior to the building permit stage has also resulted in increased compliance.

In January 2001, the first court challenge regarding an interpretation of the *Homeowner Protection Act* went to court and the judgment was in favour of the Province. This ruling clearly placed strata-titled hotels, motels and "resort" developments within the *Homeowner Protection Act* definition of "new home". This confirms that the requirements for licensing and home warranty insurance do apply **to strata-titled resort developments.**

Consumer Protection for Building Envelope Renovations Introduced

On September 30, 2000 consumer protection regulations for building envelope renovations came into force. As of this date, contractors performing building envelope renovations must be licensed by the Homeowner Protection Office and arrange for home warranty insurance on applicable repairs in order to get a building permit.

In geographic areas where building permits are not required, licensing and arrangements for warranty insurance must occur prior to the commencement of work. A building envelope consultant is also required for applicable renovations. As of March 31, 2001, 72 building envelope renovators were licensed in B.C.

Warranty insurance coverage on the building envelope renovations includes two years on labour and materials and, if 60% or more of any wall is replaced, a five-year water penetration warranty is also provided.

These consumer protection regulations help ensure that building envelope renovations are effective, long-term solutions so that homeowners will no longer have to pay for multiple repair attempts on their buildings.

Statistics as at March 31, 2001	
Number of Licensed Residential Builders	2,298
Number of Licensed Building Envelope Renovators	72

Registered for and Issued: July 1, 1999 – March 31, 2001	
Multi-Unit Dwelling (Number of Units)	5,558
Detached Dwellings	6,523
Owner-Builder Exemptions	3,768
HPO Exemptions from Warranty	983
Other Detached Exemptions	7
Total	16,832

The HPO's standard 2-5-10 logo helps homebuyers identify new homes that are built by licensed residential builders and have home warranty insurance.

Warranty Disclosure for Homebuyers

British Columbia is currently in a home warranty transition period. Some new homes are built by licensed residential builders and have the stronger, mandatory 2-5-10 warranty insurance required by the *Homeowner Protection Act*. Other new homes, built before the consumer protection regulations were implemented, have a variety of different warranties or no warranties at all.

The Notice of Home Warranty regulations were brought into force to address this warranty transition period. As of August 1, 2000, vendors of new homes built with building permits applied for before the licensing and mandatory home warranty insurance regulations were implemented, must provide homebuyers with a Notice of Home Warranty before accepting an offer to purchase the home. The Notice indicates the type, extent and expiration dates of any existing home warranty.

To further eliminate homebuyers' confusion, a standard 2-5-10 year warranty logo was trademarked and introduced by the Homeowner Protection Office. This logo can be used by licensed residential builders to identify and help market homes that meet the requirements of the *Homeowner Protection Act*. The logo indicates to consumers that the new home was built by a licensed residential builder and has at least the minimum 2-5-10 year home warranty insurance required.

Home Warranty Insurance Available		
Provider	New Homes	Building Envelope Renovations
Commonwealth Insurance represented by Willis Canada	◆	◆
Kingsway Insurance represented by Residential Warranty Insurance Services Ltd.	◆	◆
London Guarantee Insurance Company	◆	
Royal SunAlliance represented by National Home Warranty Programs	◆	
Royal SunAlliance represented by Wylie-Crump Limited	◆	◆

Bob Maling,
Director of Licensing and
Registrar

RESIDENTIAL BUILDER LICENSING AND HOME WARRANTY INSURANCE

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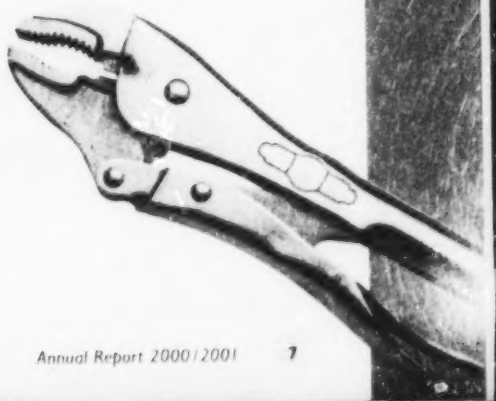
Kingsway Insurance represented by Residential Warranty Insurance Services Ltd.	◆	◆
London Guarantee Insurance Company	◆	
Royal SunAlliance represented by National Home Warranty Programs	◆	
Royal SunAlliance represented by Wylie-Crump Limited	◆	◆



RECONSTRUCTION PROGRAM

The Reconstruction Program provides financial assistance to owners of leaky homes through the Homeowner's Reconstruction Loan Program and the PST Relief Grant. The Homeowner Protection Office (HPO) continued to meet the growing demand for these financial assistance programs.

Homeowner's Reconstruction Loan Program

The Homeowner's Reconstruction Loan Program provides no-interest repair loans to owners of leaky homes, including housing co-operatives, that are not able to finance or pay for the repairs caused by premature building envelope failure. Most homeowners are eligible for the no-interest repair loan if they:

- own a leaky home where the building envelope deteriorated sooner than expected
- do not have savings or investments that could be used to pay for repairs (Homeowners are not required to cash in their RRSPs, pension assets for the first $10,000 in liquid assets to qualify. Seniors age 60 years or older can have $250,000 in liquid assets and still qualify.), and
- do not have enough equity in their homes to qualify for conventional loans or they can not afford the monthly payment on conventional loans.

Approved loans cover the cost of the repair and any related legal expenses. The homeowner makes monthly, principal-only payments, set at affordable levels by the HPO, to the lending institution that holds the mortgage on the home. The HPO pays the interest portion of the loan directly to the lending institution on behalf of the homeowner.

The Homeowner's Reconstruction Loan Program's minimum monthly payment is $50. In some cases a monthly payment of $50 represents too much of a burden. In these cases, the HPO can approve a deferred payment loan that does not require any payments of interest or principal for as long as the owner lives in the home. The HPO approved 458 deferred payment loans totaling almost $10 million by March 31, 2001.

Loan Program *as at March 31, 2001*

	Number	% of total
Applications received	6,569	
Applications approved	5,278	80.3%
Active files pending decision	256	3.9%
Applications not meeting eligibility criteria or withdrawn	1,035	15.8%

	Number	Total Amount	Average per Unit
No-interest loans through first-mortgage lender	4,134	$ 87,589,289	$ 21,188
No-interest loans through the HPO	686	$ 17,523,415	$ 25,544
Deferred Payment Loans through the HPO	458	$ 9,833,632	$ 21,471
Total	5,278	$ 114,946,336	$ 21,778

Housing Co-operative Loan Approval	Number	Total Amount	Average per Co-op
Applications approved	26	$ 44,098,700	$ 1,696,104
			Average per Unit
Number of units	1,429		$ 30,860
Total amount approved		$ 129,445,236	

Need for Repair Loans Remains Heavy

The need for the loans program was even higher this year than the past year. As of the annual report date of March 31, 2001, the HPO approved an additional 2,958 no-interest repair loans for condominiums. Since the program's inception in October 1998, 5,278 loans for condominiums totaling $114.9 million in financial assistance was approved. Average loan amounts raised from $19,959 to $21,778 over the last year which reflects the

Dan Maxwell,
Chief Operating Officer

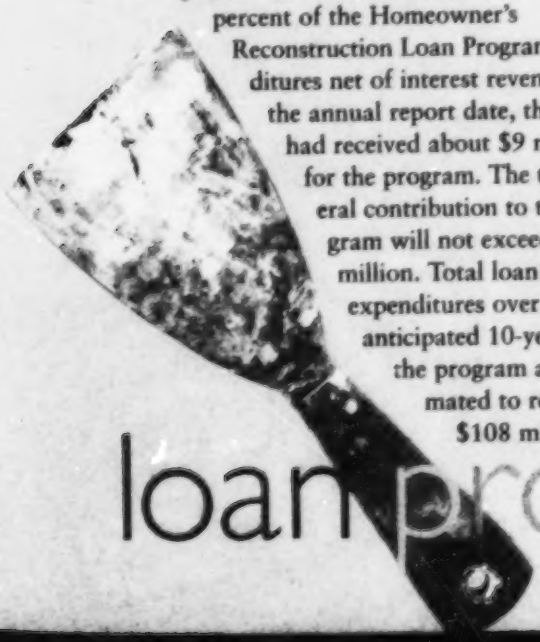
commencement of repairs on more severely damaged buildings. Many of these strata corporations faced difficulty in obtaining the necessary approvals from the strata lot owners; therefore, more time was needed when compared to other buildings facing less expensive repairs.

Loans for 26 housing co-operatives representing 1,429 units were also approved totaling an additional $44.1 million. The total amount of financial assistance approved under the Homeowner's Reconstruction Loan Program at the annual report date was $159 million—a 220% increase in the amount of loans approved from last year's total of $72.2 million.

Funding for the Loans Program

The province provides bridge financing for the loans program. By the annual report date, the HPO had borrowed $15.1 million for the program's immediate cash requirements. The provincial loan will be repaid overtime through the collection of a $750 builder levy charged on the construction of new multi-unit residences in the same geographic areas where the loans program is accessed.

On October 20, 2000, the Government of Canada, through CMHC, agreed to provide a contribution equal to fifty percent of the Homeowner's Reconstruction Loan Program expenditures net of interest revenue. By the annual report date, the HPO had received about $9 million for the program. The total federal contribution to the program will not exceed $27.7 million. Total loan program expenditures over the anticipated 10-year life of the program are estimated to reach $108 million.



loan program

Summary as at March 31, 2001

Applications Received by Housing Type	
Condominium/Apartment	92%
Townhouse	7%
Single family dwelling	1%
Applications Approved	
Number of applications approved	147
Number of homes represented	5,630
Amount Approved	
Total amount of approved grants	$ 2,231,413
Average grant amount per application	$ 17,570
Average grant per home	$ 396

Consumer Protection for Building Envelope Renovations

On September 30, 2000 consumer protection regulations were enacted requiring contractors who perform building envelope renovations to be licensed by the Homeowner Protection Office and arrange for home warranty insurance on applicable building envelope renovations. In a continued effort to ensure that all building envelope repairs funded with no-interest loans from the HPO are viable, long-term solutions, strata corporations that have owners who are applying for loans must now confirm that the proposed repair will be performed by a licensed building envelope renovator who has arranged for home warranty insurance on their work.

PST Relief Grant

The HPO administers the PST Relief Grant on behalf of the province. The program provides provincial sales tax relief on building envelope renovations completed on or after July 28, 1998, the date the *Homeowner Protection Act* was passed. An estimated $28 million in financial assistance will be provided over the life of the program.

By March 31, 2001, PST Relief Grants representing 5,630 homes was approved totaling $2.2 million in financial assistance. These grants equate to an average $17,570 per application or $396 per home. The demand for this program will increase overtime as more repairs are completed.

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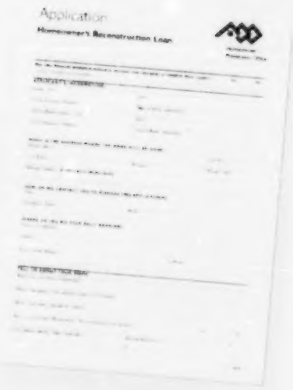
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Amount Approved	
Total amount of approved grants	$ 2,231,413
Average grant amount per application	$ 17,570
Average grant per home	$ 396

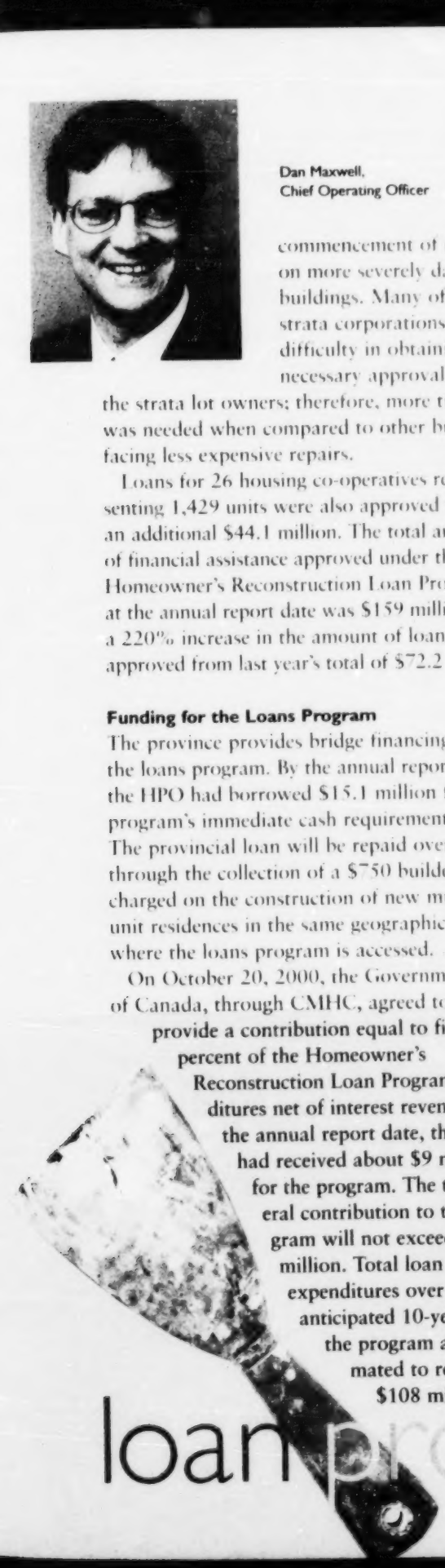
Consumer Protection for Building Envelope Renovations

On September 30, 2000 consumer protection regulations were enacted requiring contractors who perform building envelope renovations to be licensed by the Homeowner Protection Office and arrange for home warranty insurance on applicable building envelope renovations. In a continued effort to ensure that all building envelope repairs funded with no-interest loans from the HPO are viable, long-term solutions, strata corporations that have owners who are applying for loans must now confirm that the proposed repair will be performed by a licensed building envelope renovator who has arranged for home warranty insurance on their work.

PST Relief Grant

The HPO administers the PST Relief Grant on behalf of the province. The program provides provincial sales tax relief on building envelope renovations completed on or after July 28, 1998, the date the *Homeowner Protection Act* was passed. An estimated $28 million in financial assistance will be provided over the life of the program.

By March 31, 2001, PST Relief Grants representing 5,630 homes was approved totaling $2.2 million in financial assistance. These grants equate to an average $17,570 per application or $396 per home. The demand for this program will increase overtime as more repairs are completed.



loan program

Reconstruction Program

RESEARCH AND EDUCATION

The Homeowner Protection Office (HPO) has a mandate to carry out research and education (R&E) that serves both the residential construction industry and consumers. R&E in the area of building science is undertaken to bring about the long-term goal of improving the quality of new homes in British Columbia. Consumer related initiatives are undertaken to help homebuyers make more informed purchasing decisions and owners of leaky homes to better manage the repair of their homes.

The R&E component of the HPO is funded through builder license fees and contributions from sector organizations. Given the modest level of housing starts and unrenewed contributions from sector organizations, the HPO is now challenged to find alternate and additional sources of funding for this program. The HPO seeks out joint-venture partnerships for its initiatives in order to leverage the R&E budget.

Building Science Project Priorities

The Provincial Advisory Council on Homeowner Protection continued to play an active role in the establishment of the R&E priorities of the HPO.

This 14-member council, established by the *Homeowner Protection Act* to advise the HPO on emerging issues and its R&E programs, includes representation from consumer groups, builders and developers, architects, engineers, home warranty insurance providers, labour and local governments.

Over 1,300 people have attended the HPO's free Condominium Repair Process Seminars

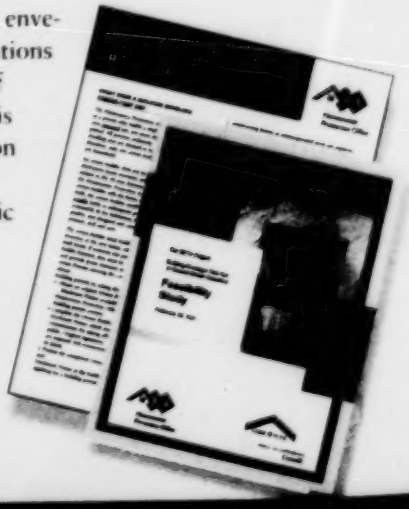
Influenced by feedback from the Provincial Advisory Council on Homeowner Protection, the HPO had 13 building science R&E projects that were underway or completed during this fiscal year. (See chart on building science projects.) This year, the HPO's contribution to building science R&E projects totaled $221,500. Together with industry partnerships, $1,348,000 has been contributed to these projects that will increase the quality of residential construction over time.

Consumer Education and Information

Assisting homeowners and homebuyers is also an objective of the R&E function of the HPO. A large portion of our efforts has been directed at helping owners of leaky homes with the often complex process of repairing their buildings.

The HPO continues to offer free public Condominium Repair Process Seminars for owners and property managers of leaky homes. To date, the HPO has held 20 sessions attended by 1,300 people in the Lower Mainland and southern Vancouver Island. Local engineers, architects, lawyers, property managers and municipal officials as well as HPO staff present topics which include: the new consumer protection regulations for building envelope renovations, financial assistance available through the HPO, technical information as well as legal considerations.

In keeping with the HPO's commitment to be a responsive and service-oriented organization, evening on-site presentations regarding the financial assistance available and building envelope renovation regulations are given to owners of affected buildings. This individualized attention ensures that the HPO can address the specific circumstances and issues that arise with particular strata



corporations. The HPO has participated in 250 on-site visits representing 15,000 units affected by the leaky condo crisis.

Publications such as *Managing Major Repairs, Options for Resolving Residential Construction Disputes, Buying a New Home: A Consumer Protection Guide* as well as bulletins on the repair process also continue to provide useful information to homeowners and homebuyers.

The HPO as an Information Source

The HPO continues to address the informational needs of the residential construction industry and consumers through the 1-800 line and our Web site. This year, the HPO handled 15,666 calls on the toll-free line, totaling 37,200 calls since the office opened in October 1998. The HPO Web site also has received 109,900 visits from individual users since its inception.

HPO Building Science Research and Education Projects 2000-2001

Project/Description	Financial Commitments HPO	Total Project Cost	Financial Partners	Status
Monitoring of Wall Assemblies Monitoring of performance characteristics of new and remediated wall assemblies	$35,000	$231,000	BC Housing, CMHC	1st year of monitoring complete. Additional buildings to be added to study.
Building Trades Course Curriculum development on best practices and moisture management	$55,000	$135,000	CMHC, CHBA	Development of modules nearing completion. CHBA BC to deliver the course.
High-Rise Building Envelope Details Study Study of details and systems performance in high-rise residential buildings	$32,500	$75,000	CMHC, City of Vancouver, and Industry	Completed.
Building Envelope Test Hut (BETH) Feasibility study for constructing and monitoring an outdoor building envelope test facility	$5,000	$10,000	CMHC	Completed. Location selection underway.
Building Envelope Research Bibliography Development of an annotated bibliography on building envelope research conducted	$10,000	n/a	n/a	Underway.
Measuring Moisture Content of Wood Development of industry protocols for measuring the moisture content of wood	$5,000	$15,000	CMHC	Development of protocols complete. HPO to offer workshop.
Leak Proofing Windows A study of the manufacturing, transportation, storage, installation and regulatory standards of residential windows	$10,000	$120,000	BC Housing, CMHC	Underway.
Envelope Drying Rates Analysis, Phase I A Building Envelope Research Consortium (BERC) study of drying rates of various wall assemblies under controlled laboratory conditions	$60,000	$680,000	BC Housing, CMHC, Forintek, HAL Industries, Dupont Polygon and several material suppliers	First phase nearing completion at Forintek.
Building Envelope Research Consortium Funding for the operation of BERC	$5,000	$54,000	CMHC	Yearly contribution.
Updates to CMHC Best Practices Guide Updating CMHC's Best Practices Guide for Wood-Frame Envelopes	4000+	$28,000	CMHC	HPO to assist with possible delivery.
Developer/Builder Licensing Committee Examination of possible future education and training requirements for licensed residential builders	In kind	n/a	n/a	Ongoing.
Survey of Construction Courses Development of a consolidated list of residential construction courses available in B.C.	In kind	n/a	n/a	HPO developing list to post on Web site.
Rehabilitation Guides Residential building remediation guides targeted to owners and consultants	In kind	n/a	CMHC	HPO participation on steering committee.

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TOTAL	**$ 221,500**	**$ 1,348,000**		

Mission

- **Increase consumer protection for homeowners and homebuyers**
- **Improve the quality of residential construction in British Columbia**

Inputs

Financial resources, trained staff, facilities

Programs	Licensing and Warranty	Financial Assistance	Research and Education
Strategies and Activities	• Introduction, compliance and monitoring of licensing and warranty insurance regulations for new residential construction and building envelope renovations • Mediation regulations for residential construction disputes implemented • Education requirements planned for licensing	• No-interest repair loan applications received • PST Relief Grant applications received for completed building envelope repairs • Advice on financial assistance provided to homeowners	• Building science research projects initiated • Technology transfer to construction industry • Consumer information disseminated • Provincial Advisory Council on Homeowner Protection formed
Outputs	• 2,298 residential builders and 72 building envelope renovators licensed • Public registry of builders and renovators on Web site • Building permits for 16,832 new homes applied for under the new legislation • Increased compliance • Public list of new homes planned	• 5,278 homeowner loans approved totaling $114.9 million • 26 co-operative housing loans approved (1,429 units) totaling $44.1 million • $2.2 million in PST Relief Grants approved	• Building science studies underway • Publications and seminars for consumers and industry available • Provincial Advisory Council advising the HPO • Repair process seminars attended by 1,300 people • 250 on-site sessions for strata owners given • 37,200 people served by 1-800 line • 109,900 visits to Web site
Outcomes Immediate	• Creation of "level playing field" for builders • Builders must meet minimum standards • Consumers protected by an insurance product • Insurance companies require financial stability and quality construction from builders • Construction disputes mediated	• Homeowners keep homes who otherwise might have lost them • Availability of financial assistance facilitates more rapid approval of repairs • Only viable, long-term repair solutions selected	• Consumer information and assistance available • Research projects set framework for construction improvements • Increased awareness of construction and consumer protection issues
Intermediate (Goals)	• Increasing licensing standards improves quality of construction • Greater number of consumers benefit from licensing and warranty insurance requirements • Homes with premature building envelope failures repaired—value adjusted	• Increased value in repaired homes • Fewer repair loan applications anticipated over time • Loans repaid	• Consumers able to make more informed decisions • Results of building science studies communicated to industry—construction quality increases • Reduced occurrence of construction defects
Ultimate (Strategic objectives)	• Homeowners and homebuyers better protected • Improvement in the quality of residential construction • Consumer confidence in residential construction industry restored		

Information Available

INFORMATION AVAILABLE

Consumer Related

- *Buying a New Home: A Consumer Protection Guide*
- *Options for Resolving Residential Construction Disputes*
- *Managing Major Repairs: A Condominium Owner's Manual*
- 2001-2004 Performance Report
- Managing Leaky Condo Repairs – A video (available in English and Cantonese)
- Homeowner's Reconstruction Loan application package
- PST Relief Grant application package
- Information bulletins
  - Understanding Home Warranties, Important Information for Homebuyers
  - Highlights – No-interest Loans for Leaky Co-operative Housing
  - Highlights of the PST Relief Grant Program
  - Four-Step Approach to Managing a Major Repair (English and Chinese)
  - Selecting a Building Envelope Consultant (English and Chinese)
  - Selecting a Contractor (English and Chinese)
  - Selecting a Lawyer (English and Chinese)
  - Tendering the Building Envelope Renovation
  - Building Envelope Renovation Costs and Timelines
  - What is a Building Envelope
  - Financing the Building Envelope Repair (English and Chinese)
  - Guide to the Homeowner's Reconstruction Loan Program
  - *Strata Property Act*, Responsibilities of Strata Councils
  - Leaky Condo Alert - Important Information on Filing Leaky Condo Claims
  - Assistance to Chinese Speaking Callers (English and Chinese)

Residential Construction Sector Related

- *Land Use Planning & Weather Protected Buildings, A Best Choices Guide for Local Government*
- Residential Builder Licence Application and Agreement
- Residential Builder Licence Renewal Application and Agreement
- Building Envelope Renovator Licence Application and Agreement
- Building BC newsletter
- Public registry of licensed residential builders – Web site only
- Public registry of Licensed Building Envelope Renovators – Web site only
- Commission of Inquiry into the Quality of Condominium Construction in British Columbia Part 1, Part 2 Vol. 1, Part 2 Vol. 2 – Web site only
- Notice of Home Warranty form
- Information bulletins
  - How to Become a Licensed Residential Builder
  - How to Become a Licensed Building Envelope Renovator
  - Important Information for Owner-Builders
  - List of Home Warranty Insurance Providers
  - Home Warranty Disclosure

Acts and Regulations

- *Homeowner Protection Act*
- Consolidated *Homeowner Protection Act* Regulation [B.C. Reg 29/99] (new home construction)
- *Homeowner Protection Act* Building Envelope Renovation Regulation and amendment
- Notice to Mediate (Residential Construction) Regulation [B.C. Reg. 152/99] – Web site only
- Information bulletins
  - Highlights - *Homeowner Protection Act* Regulations for Licensing and Mandatory Third-Party Warranty Insurance for New Residential Construction
  - Highlights - *Homeowner Protection Act* Regulations for Licensing and Mandatory Third-Party Warranty Insurance for Building Envelope Renovations
  - Highlights - Notice to Mediate for Residential Construction Disputes

Homeowner Protection Office

Telephone
604 646 7050 *switchboard*
604 646 7055 *information line*
or
1 800 407 7757 *toll-free*

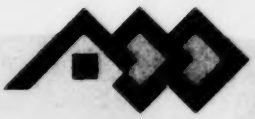
Mail
Homeowner Protection Office
PO Box 11132 Royal Centre
Vancouver BC V6E 3P3

In Person
Suite 2270
1055 W Georgia St
Vancouver BC

Web site
www.hpo.bc.ca

Email
hpo@hpo.bc.ca *general*
buildingbc@hpo.bc.ca
licensing section only

B U I L D I N G B C .



Homeowner
Protection Office

March 31, 2001

Financial Statements

R E S T O R I N G C O N F I D E N C E

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financial statements

Report of the Auditor General of British Columbia

To the Board of Directors
of the Homeowner Protection Office, and

To the Minister of Social Development
and Economic Security,
Province of British Columbia:

I have audited the balance sheet of the *Homeowner Protection Office* as at March 31, 2001 and the statement of revenues and expenditures and deficit and the statement of cash flows for the year ended March 31, 2001. These financial statements are the responsibility of the Office's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the *Homeowner Protection Office* as at March 31, 2001 and the results of its operations and its cash flows for the year ended March 31, 2001, in accordance with Canadian generally accepted accounting principles.

Wayne Strelioff

Victoria, British Columbia
April 26, 2001

Wayne Strelioff, CA
Auditor General

HOMEOWNER PROTECTION OFFICE

Statement of Management Responsibility

The financial statements of the Homeowner Protection Office (the "Office") have been prepared by management in accordance with Canadian generally accepted accounting principles, consistently applied and appropriate in the circumstances. The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized in the notes to financial statements.

Management depends upon a system of internal controls that provide reasonable assurance, on a cost-effective basis, that the financial information is reliable and accurate. The Office's external auditors independently perform such tests of the system of internal controls as they consider necessary for the purpose of expressing their opinion on the financial statements.

The Audit and Finance Committee, which is comprised of directors who are not employees, oversees management's discharge of its financial reporting responsibilities. The committee meets periodically with management and the external auditors to discuss auditing, financial reporting and internal control matters. The external auditors have access to the Audit and Finance Committee without management's presence.

Russ Pratt
Chief Executive Officer

Dan Maxwell
Chief Operating Officer

April 26, 2001

HOMEOWNER PROTECTION OFFICE

Balance Sheet

As at March 31, 2001

	2001 ($000's)	2000 ($000's)
ASSETS		
CURRENT ASSETS		
Cash	$ 198	$ 534
Cash for reconstruction and PST programs	2,140	1,478
Due from Province of British Columbia (note 4)	28	29
Due from CMHC (note 1)	405	-
Accounts receivable	38	151
Prepaid expenses	37	23
Current portion of loans receivable	721	172
	3,567	2,387
LOANS RECEIVABLE (note 3)	8,260	2,362
CAPITAL ASSETS (note 5)	329	337
	$ 12,156	$ 5,086
LIABILITIES AND DEFICIT		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 448	$ 217
Loss provision for CMHC-insured loans (note 2d)	2,421	864
Due to Province of British Columbia (note 6)	15,275	10,055
	18,144	11,136
CONTINGENCIES (note 2d)		
COMMITMENTS (note 7)		
DEFICIT	(5,988)	(6,050)
	$ 12,156	$ 5,086

Approved by the Board:

Chair

Member

The accompanying notes are an integral part of these financial statements.

HOMEOWNER PROTECTION OFFICE

Statement of Revenues and Expenditures and Deficit

For the year ended March 31, 2001

	2001 ($000's)	2000 ($000's)
Revenues		
Federal contributions for reconstruction program	$ 9,022	$ -
Reconstruction levies	2,643	581
License fees	1,601	1,073
Provincial contributions for PST program	1,580	901
Loan discount recoveries	571	148
Interest	216	200
Donations and other	1	288
	15,634	3,191
Expenditures		
Reconstruction program	11,967	5,201
PST relief grant program	1,575	849
Licensing and registrar	1,155	741
Finance and administration	571	701
Research and education	304	288
	15,572	7,780
Income (Loss) (Schedule 1)	62	(4,589)
Deficit, beginning of year	(6,050)	(1,461)
Deficit, end of year	$ (5,988)	$ (6,050)

The accompanying notes are an integral part of these financial statements.

HOMEOWNER PROTECTION OFFICE

Statement of Cash Flows

For the year ended March 31, 2001

	2001 ($000's)	2000 ($000's) (Note 10)
Cash flows from Operating Activities		
Cash received from:		
Government of Canada for reconstruction program	$ 8,617	$ -
Residential builders for reconstruction levies	2,724	473
Residential builders for license fees	1,608	1,058
Province of British Columbia for PST program	1,580	901
Homeowners for principal-only payments on loans	736	114
Interest	229	222
Partners in funding research and education activities	26	263
Cash paid to:		
Homeowners for reconstruction loans	(12,224)	(4,970)
Suppliers and employees	(2,867)	(2,510)
Financial institutions for interest on CMHC insured loans	(2,380)	(484)
Homeowners for PST relief grants	(1,455)	(776)
Province of British Columbia for loan interest	(870)	(454)
Financial institutions for defaults on CMHC insured loans	(482)	(34)
Cash flows used in operating activities	(4,758)	(6,197)
Cash flows from Investing Activities		
Purchase of capital assets	(177)	(134)
Cash flows used in investing activities	(177)	(134)
Cash flows from Financing Activities		
Province of British Columbia for PST program	64	-
Proceeds from borrowing	5,197	1,969
Cash flows from financing activities	5,261	1,969
Net Increase in (Decrease in) Cash	326	(4,362)
Cash, beginning of year	2,012	6,374
Cash, end of year	$ 2,338	$ 2,012
Represented by:		
Cash	198	534
Cash for reconstruction and PST programs	2,140	1,478
	$ 2,338	$ 2,012

The accompanying notes are an integral part of these financial statements.

1. General

The Homeowner Protection Office (the "Office") was created in 1998 under the *Homeowner Protection Act* S.B.C. 1998, c. 31 (the Act). The purposes of the Office are:

- to license residential builders and other persons required to be licensed under the Act;
- to carry out research and education respecting residential construction in British Columbia; and
- to administer the Reconstruction Program to provide financial assistance to eligible homeowners for home reconstruction.

Effective July 1, 1999, all persons who wish to carry on the business of a residential builder in British Columbia must obtain a licence from the Office's Registrar. Effective October 1, 2000, repair contractors who wish to perform specified building envelope renovations in British Columbia must obtain a licence from the Office's Registrar. The licence fees collected fund all of the operations of the Office except for the Reconstruction and Provincial Sales Tax Relief Grant Programs. The research and education function has a mandate to disseminate information to the residential construction industry and to homeowners in areas such as cost effective building techniques, best practices for retrofitting housing, building code changes and consumer education.

The Reconstruction Program provides subsidized interest loans, no-interest loans and deferred payment loans to owners of water-damaged homes who are not able to finance or pay for repairs. A reconstruction levy is collected on residential units in multi-unit buildings constructed after July 1, 1999 in the coastal climatic zone. The Government of Canada through the Canada Mortgage and Housing Corporation (CMHC) provides a contribution to the reconstruction program equal to fifty percent of the reconstruction program expenditures net of interest revenue. The total contribution from the Government of Canada will not exceed $27.7 million.

The Office also administers the Provincial Sales Tax (PST) Relief Grant Program on behalf of the Province. The Province provides a contribution to the Office to cover the administration costs and grant payments of the program.

The expenditures and revenues of these programs are reported in Schedule 1.

2. Significant Accounting Policies

The accompanying financial statements are prepared in accordance with generally accepted accounting principles that are considered appropriate for the Office. The significant accounting policies are noted below.

a) Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Significant areas requiring the use of management estimates relate to the determination of the present value of loans receivable, loan loss provision, and amortization of capital assets. Actual results could differ from the estimates.

b) Capital assets

Capital assets are recorded at cost and amortized on a straight line basis over their estimated useful lives as follows:

Computer software and hardware	Three years
Leasehold improvements	Over the lease term
All other capital assets	Five years

Assets costing less than $1,000 are expensed in the year of purchase.

c) No-interest loans and deferred payment loans

No-interest loans and deferred payment loans provided by the Office are concessionary loans in that no interest is charged to the homeowner. These loans are recorded at their net present value (net of grant component) less any provision required for doubtful collection. Net present value is determined by discounting no-interest loans over their terms and discounting deferred payment loans over 20 years at the provincial borrowing rate for equivalent terms. Present value discounts are recorded as grant expense. Principal repayments are first applied to the reduced loan balance (net present value) and then recorded as revenue (loan discount recoveries) when received.

d) Loss provision for CMHC-insured loans

Loans provided by financial institutions under the Reconstruction Program do not appear on these financial statements. However, the Office has indemnified CMHC for any claims that may be made against the CMHC insurance on these loans up to $250 million. The Office records a 4% loan loss provision ($2.421 million at March 31, 2001).

e) Federal and provincial taxes

The Office is exempt from corporate income taxes and is not subject to the Goods and Services Tax.

3. Reconstruction Program

Under the Act, money paid to the credit of the Reconstruction Program must only be used for the purposes of the program.

Under the Reconstruction Program, financial assistance is provided to homeowners who cannot afford to pay for repairs to their water-damaged homes. The financial assistance is secured by mortgages registered against the title of the home to be repaired. This financial assistance is provided in the form of subsidized interest loans, no-interest loans or deferred payment loans as follows:

a) Subsidized interest loans through the first mortgage lender

i) Condominiums

Under agreements with financial institutions and CMHC, the Office approves loans to homeowners for repairs to water-damaged homes and issues CMHC insurance certificates for these loans. The loan is advanced by the financial institution that holds a first mortgage on the property and, as a consequence, does not appear on these financial statements. The homeowner makes monthly principal-only payments to the financial institution. The Office pays interest on the homeowner's behalf to the financial institution at the prime rate of the lender. This interest is reported as interest subsidy on Schedule 1.

ii) Housing Co-operatives

Under an agreement with CMHC, the Office approves loans to water-damaged housing co-operatives. The loan is advanced by CMHC who is also the first mortgage lender. The housing co-operative makes a monthly principal-only payment to CMHC. The Office pays interest on the housing co-operative's behalf to CMHC. While the repairs are underway and prior to the interest adjustment date (IAD), the Office pays interest at CMHC's Construction Floating Rate. At IAD, the interest rate on a loan is set for an initial five-year term to equal the bid yield of a five-year Government of Canada benchmark bond with approximately five years remaining in its term plus not more than 0.75 percent per annum, compounded semi-annually not in advance. This benchmark is also used to set the interest rate for the second and final five-year term. This interest is included in interest subsidy on Schedule 1.

The Office has not provided guarantees or indemnities for any of the loans to housing co-operatives. The only obligation of the Office with respect to these loans is to pay interest. Consequently, neither the loans nor a provision for losses appear on the balance sheet of the Office.

b) No-interest loans through the Office

In cases where there is no first mortgage or where the first mortgage lender refuses to provide a loan, the Office provides a no-interest loan to the condominium homeowner. The homeowner makes principal-only payments to the Office. Loans advanced directly by the Office are not CMHC insured. The present value of these loans is included in loans receivable on the balance sheet.

c) Deferred payment loans through the Office

In circumstances where eligible condominium homeowners qualify for no-interest loans under the Reconstruction Program but whose income is such that they cannot afford at least $50 per month as a principal-only loan payment, the Office may approve a deferred payment loan. Deferred payment loans do not accrue interest and do not require any payments to be made for as long as the homeowner lives in the home. If the net sales proceeds of the home, after repaying other mortgages in priority to the deferred payment loan and paying reasonable legal and real estate expenses, are not sufficient to fully repay the deferred payment loan then the shortfall will be forgiven. The present value of these deferred payment loans is included in loans receivable on the balance sheet.

As at March 31, 2001 the Office had approved financial assistance as follows:

	Number of Loans	Total Financial Assistance ($000)	Financial Assistance Reported on the Balance Sheet of the Office ($000)
Subsidized interest loans			
- Condominiums (note 3a(i))	4,134	$87,589	$ -
- Housing co-operatives(note 3a(ii))	26	44,099	-
No-interest loans (note 3b)	686	17,523	17,523
Deferred payment loans (note 3c)	458	9,834	9,834
Total loans approved	5,304	159,045	27,357
Less:			
Loans approved but not yet issued			
- Condominiums		(36,492)	(9,425)
- Housing co-operatives		(38,763)	-
Present value discount		(7,987)	(7,987)
Loss provision for CMHC-insured loans		(2,421)	-
Loan write-offs		(630)	(114)
Loan repayments		(5,180)	(850)
Loans receivable		$67,572	8,981
Less: current portion			(721)
Loans receivable			$ 8,260

The present value of the interest to be paid in the future by the Office on the subsidized interest loans is $41.5 million.

Loans were approved but not issued in instances where strata corporations or housing co-operatives had not yet signed contracts for the repair of the water-damaged building or had not yet passed the final special assessment for the cost of the repairs.

The 26 housing co-operatives contain 1,429 homes.

4. Due from the Province of British Columbia

Under an agreement with the Province of British Columbia, the Office invests the balance of its overnight bank deposits in the Province's offset interest program. Approximately one month after the interest is earned, this program pays interest to the Office at the prime rate of the Royal Bank of Canada less 1.75%.

5. Capital assets

	March 31, 2001 ($000's)			March 31, 2000 ($000's)
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Computer software	$ 136	$ (102)	$ 34	$ 56
Computer hardware	170	(132)	38	57
Office furniture and equipment	281	(140)	141	145
Leasehold improvements	168	(52)	116	79
Total	$ 755	$ (426)	$ 329	$ 337

6. Due to the Province of British Columbia

The Office has the authority to borrow up to a maximum of $75 million from the Province to fund operations and the Reconstruction Program. The Office's Board of Directors has approved borrowing to a maximum of $30 million.

Of the $15.275 million borrowed by the Office, $7.08 million is due on April 9, 2001 with interest accrued at 5.29% per annum and $8.195 million is due May 17, 2001 with interest accrued at 5.13% per annum.

7. Commitments

The Office is committed in the normal course of business to paying interest on homeowners' behalf to financial institutions at the prime rate of the lender.

The Office has minimum rental obligations under operating leases for office space as follows:

Fiscal Year	($000's)
2002	$ 241
2003	$ 187
2004	$ 189
2005	$ 159
2006	$ -
Total	$ 776

8. Related Party Transactions

In the normal course of operations the Office acquired goods and services from the Province and certain crown corporations, under prevailing trade terms.

9. Pension Plan

The Office has a defined benefit plan and a defined retirement plan for all of its employees. In addition, the Office has defined health care plans for all employees and retirees.

The Office and its employees contribute to the Public Service Pension Plan in accordance with the *Public Sector Pension Plans Act*. The British Columbia Pension Corporation administers the Plan, including the payment of pension benefits on behalf of employers and employees to whom the Act applies. The Plan is a multi-employer defined benefit plan. The most recent actuarial valuation (March 31, 1999) has determined the Plan is in a surplus position.

Employees are also entitled to specific health care and termination benefits as provided for under collective agreements and terms of employment.

Defined contribution plan accounting is applied to these benefit plans as the Office has insufficient information to apply defined benefit plan accounting. As such, the cost of employee future benefits for these plans is recognized as an expense in the year contributions are paid.

10. Comparative Figures

Certain of the comparative figures have been reclassified to conform with the presentation adopted in the current year.

HOMEOWNER PROTECTION OFFICE

Schedule 1
Revenues and Expenditures by Program

For the year ended March 31, 2001

	Reconstruction Program		PST Relief Grant Program	
	2001 ($000's)	2000 ($000's)	2001 ($000's)	2000 ($000's)
Revenue				
Federal contributions	$ 9,022	$ -	$ -	$ -
Reconstruction levies	2,643	581	-	-
License fees	-	-	-	-
Provincial contributions	-	-	1,580	901
Loan discount recoveries and other	571	148	-	-
Interest	171	150	20	11
	12,407	879	1,600	912
Expenditures				
Reconstruction loan grants	5,613	2,675	-	-
Interest subsidy	2,380	484	-	-
Loss provision on CMHC-insured loans	2,131	795	-	-
Salaries and wages	633	502	84	42
PST Relief Grants	-	-	1,455	776
Interest expense	714	314	1	1
Travel, office and other	177	119	12	13
Rent and utilities	85	64	11	7
Legal and professional fees	109	147	1	1
Amortization	66	51	9	6
Communications and printing	59	50	2	3
Research studies	-	-	-	-
Consumer and Industry Education	-	-	-	-
	11,967	5,201	1,575	849
Income (Loss)	$ 440	$(4,322)	$ 25	$ 63

HOMEOWNER PROTECTION OFFICE

Schedule 1
Revenues and Expenditures by Program
For the year ended March 31, 2001

Licensing & Registrar		Finance & Administration		Research & Education		Total	
2001 ($000's)	2000 ($000's)	2001 ($000's)	2000 ($000's)	2001 ($000's)	2000 ($000's)	2001 ($000's)	2000 ($000's)
$ -	$ -	$ -	$ -	$ -	$ -	$ 9,022	$ -
-	-	-	-	-	-	2,643	581
1,003	491	598	582	-	-	1,601	1,073
-	-	-	-	-	-	1,580	901
-	-	-	-	1	288	572	436
14	16	8	20	3	3	216	200
1,017	507	606	602	4	291	15,634	3,191
-	-	-	-	-	-	5,613	2,675
-	-	-	-	-	-	2,380	484
-	-	-	-	-	-	2,131	795
546	312	339	390	96	65	1,698	1,311
-	-	-	-	-	-	1,455	776
64	36	37	42	14	7	830	400
235	103	92	112	18	17	534	364
79	46	46	53	16	9	237	179
89	83	10	49	16	28	225	308
61	38	35	44	13	7	184	146
81	123	12	11	19	102	173	289
-	-	-	-	85	53	85	53
-	-	-	-	27	-	27	-
1,155	741	571	701	304	288	15,572	7,780
$ (138)	$ (234)	$ 35	$ (99)	$ (300)	$ 3	$ 62	$ (4,589)